



# **Washington State Board of Accountancy**

## **Advisory Council Report to the Board of Accountancy**

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## **I. Executive Summary**

The twenty-seven individuals serving as members on the Board's Advisory Council represent a broad spectrum of the Board's stakeholders including: legislators, professional organizations, small businesses, investors, bankers, licensees and certificate-holders, minority professionals, board programs, board committees, and the public.

Council members worked with the organizations/groups that they represented and submitted issues, concerns or problems with the current state of regulation of accountancy in Washington state for the Council to consider. Additionally, approximately 130 stakeholders received a written request for input and a general request for input was placed on the Board's website.

The Council met on May 1, 2002 and held in-depth discussions on the issues presented to the Council. Council members were asked to confer with their representative organizations/groups to prepare to identify issues of merit to their organization.

Members voted on the issues presented and, based upon a simple tallying of the votes, a prioritized listing of the issues was developed.

The Council met on June 13, 2002, deliberated again on each issue, and based upon a supermajority vote, identified those issues which merited recommendation for consideration by the Board.

Section III of this report contains a prioritized listing of the issues and identifies the 17 issues the Council refers to the Board for consideration. The listing also denotes whether the issue relates to state statute, Board rule, or Board policy.

The Council expresses its appreciation to the Board for the opportunity to participate in this valuable endeavor.

## II. Background Statement

During the 2001 legislative session the Washington State Legislature enacted major revisions to RCW 18.04, the Public Accountancy Act (Act). In general, the new provisions of the Act:

1. Allow nonCPAs to be minority owners in CPA firms
2. Expand the Washington State Board of Accountancy's (Board) responsibilities to include publishing consumer awareness and public protection information
3. Grant practice privileges to individual CPAs licensed in other qualifying jurisdictions
4. Provide flexibility in conducting the CPA examination
5. Expand the Board's sanctioning authority to include full restitution to injured parties and fines up to \$10,000
6. Establish one class of licensure for future applicants
7. Establish title use allowances for Enrolled Agents and individuals using other titles

These revisions incorporated several controversial changes in the way accountancy was regulated. The key areas of issue were:

1. Allowing non-CPAs to hold a minority ownership interest in a CPA firm
2. Requiring non-CPA owners to be natural persons (i.e., prohibiting partnerships of natural persons from holding a minority ownership interest in a CPA firm)
3. Eliminating (through attrition) the certificateholder class by:
  - Authorizing the Board to only issue CPA licenses (i.e., prohibiting the issuance of a CPA certificate. Certificates were issued to individuals before they met the experience requirement. These individuals could use the CPA title if they were working in government, industry, or academia. Experience was required to obtain a license. And, a license was required in order for an individual to use the CPA title to offer services to the public.)
  - Requiring certificateholders to use the title "CPA-Inactive" after approximately a 2-½ year grace period for them to transition to a license status.

Other areas of controversy that arose during public meetings on the bills that did not directly relate to the bills (rather they related to the Board rules) were:

1. Allowing CPAs to enter into commission, contingent, and referral fee arrangements with non-attest clients.
2. Allowing applicants for licensure to obtain their experience in organizations other than CPA firms.

To ensure follow-up on these concerns and to identify implementation issues and any additional issues with regulating accountancy in Washington state, the Legislature required that "By December 1, 2002 the Board of Accountancy shall report to the Senate Committee on Labor, Commerce, and Financial Institutions and the House Committee on Commerce and Labor, or successor committees, on the implementation of this act, including but not limited to the provisions governing nonlicensee owners of CPA firms and the fiscal impacts."

To ensure broad and in-depth public input, on January 25, 2002 the Board established an Advisory Council comprised of individuals representing a broad spectrum of stakeholder organizations. See Appendix A for a roster of Council members. The Board appointed James W. Caley, CPA, as Chair of the Advisory Council. James W. Caley also serves as the Chair of the Board and Chair of the Board's Legislative Liaison Committee.

The Board charged the Advisory Council with:

- Developing a comprehensive and balanced list of issues,
- Prioritizing the issues, and
- Recommending, by way of a supermajority vote, those issues meriting the Board's consideration.

Council members worked with their organizations and submitted issue statements for consideration. A request for input was posted to the website. A letter describing the key changes in state law, the Council's purpose, and soliciting input was sent to approximately 130 stakeholder organizations and individuals on the Board's rule making notification list and the Board's stakeholder list.

The Council met on May 1, 2002 and discussed the issues to ensure each member had a clear understanding of the issues. As guided by the Council charter, public input was welcomed and received during the meeting and a member of the public submitted an issue to the Council for consideration. The Council accepted the issue.

The Council agreed to combine several issues which were similar in nature and they also agreed to accept additional issues provided they were submitted by May 17, 2002. Three additional issues were submitted.

Prior to the June 13, 2002 meeting, members submitted a ballot vote prioritizing the issues. The issues were then prioritized based on a totaling of the individual votes.

The Council's second and final meeting was held on June 13, 2002. At this meeting the Council reviewed the prioritization of the issues and deliberated on each issue. One issue was withdrawn.

Then, based on a supermajority vote, the Council identified which issues to recommend to the Board for consideration. As a result of the above activities the Advisory Council identified a total of 29 issues, 17 of which were recommended for Board consideration

Section III of this report presents the prioritized listing of those 29 issues and identifies the 17 issues the Council recommends the Board consider. To support the Board's review, the 17 issues have been identified as to whether they relate to statute, Board rule, or Board policy. The vote counts reported represent the Council members present and voting at the time each vote was taken.

Appendix B contains a copy of the 29 issues as submitted to the Council.

### **III. Listing of Issues**

The following page is a prioritized listing of the 29 issues the Council received and deliberated on. The last 3 issues in the list are not included in the prioritization because they were presented to the Council after the Council's May 1<sup>st</sup> meeting. Because the Council was unable to discuss these issues prior to taking the vote to rank the issues, the Council did not include these issues when voting on the priority of the issues. The listing also identifies 17 of the total 29 issues that the Council is referring to the Board for consideration and notes whether the individual issue relates to statute, Board rule, or Board policy.

		<b>Advisory Council Issue Listing</b>	<b>Vote</b>			
Recommended Review Statute, Rule or Policy	Priority	Issue Numbers – Descriptions	Yes	No	Abstain	Total
YES-Statute	1	Issue 14 – Sanctioning Authority Over (1) Imposters and (2) Individuals Cheating on the CPA Exam	20	0	0	20
YES-Rule	2	Issue 1 – Independence: Assuring Reliability of CPA Attest Services/Adequacy of Provisions for Auditor Independence	17	1	3	21
YES-Statute	3	Issue 11 – Extend Date for Certificate-holder Experience look back period from June 30, 2004 to June 30, 2007.	20	0	1	21
YES-Statute	4	Issue 12 – Establishing a Penalty for an Individual Using the CPA Title when their License or Certificate was Suspended or Revoked by the Board of Accountancy	19	0	1	20
YES-Statute	5	Issue 13 – Self Reporting of Enforcement Action	20	0	0	20
YES-Statute	6	Issue 15 – Records retention requirement for Documentation Required by Professional Standards	18	1	2	21
YES-Statute	7	Issue 10 – Notifying the Board of Changes in Firm Ownership	21	0	0	21
	8	Withdrawn				
YES-Rule	9	Issue 8 - Adequacy of Ethical and Legal Standards	15	2	3	20
YES-Policy	10	Issue 7 – Adequacy of Peer Review and Discipline	17	2	1	20
YES-Statute	11	Issue 18 – Board Member Term Limit	14	7	0	21
YES-Statute	12	Issue 24 – Reciprocity	18	0	3	21
YES - Statute	13	Issue 21 – Fines for Licensed Firms	19	1	1	21
	14	Issue 6 – Non-CPA Ownership	6	12	3	21
	15	Issue 17 – Substance over form re interpretation of professional standards	9	11	1	21
	16	Issue 19 – The corporate culture existent within many firms has resulted in large scale failures and chronic inability, across the industry, of firms to manage and police their key engagement personnel.	4	13	3	20
	17	Issue 9 – Adequacy of Involvement of Outside Interests	12	6	2	20
	18	Issue 26 – Non-Licensee Owner Education Requirements	2	15	4	21
	19	Issue 25 – Good Character Requirements	4	17	0	21
	20	Issue 20 – Signatures on opinions, reports, work product and results should bear the name and signature of the engagement manager and officer/shareholder/partner/members, and their qualifying titles (as well as the firm name and reference) to enhance the investment of the professional in the quality of the work product.	11	5	5	21
YES-Statute	21	Issue 23 – Washington Department of Revenue Registration	18	2	1	21
YES-Statute	22	Issue 22 – Simple Majority of Licensed Firms to be Natural Persons	20	0	1	21
	23	Issue 30 – Legislative restriction on Board disciplinary jurisdiction to create conformity with other West Coast states accountancy enabling statutes.	3	14	4	21
	24	Issue 29 – A CPA should not be allowed to receive commissions	5	13	3	21
	25	Issue 28 – The law should ban competitive bidding for audits	5	12	4	21
	26	Issue 3 – Multi-GAAS	3	13	5	21
YES-Policy		Issue A – New Experience Affidavit imposes requirements beyond what is required by the law itself.	20	0	1	21
YES-Policy		Issue B – New Definition of the “Practice of Law” (General Rule 24 and 25) may prohibit or restrict existing practices of CPAs, Enrolled Agents or Accountants.	18	1	2	21
YES-Rule		Issue C – Substantial equivalency implementation issue.	17	1	3	21

## **Appendix A - Advisory Council Member Roster**

The Honorable Georgia Gardner, Washington State Senator  
The Honorable Don Carlson, Washington State Senator  
The Honorable Steve Conway, Washington State Representative  
James W. Caley, Chair, Board of Accountancy and Chair, Legislative Liaison Committee  
Rufino Moraleja, Past Chair and Member, Board of Accountancy and Legislative Liaison Committee  
Thomas Sadler, Past Chair and Member, Board of Accountancy and Legislative Liaison Committee  
Laurie Tish, Immediate Past Chair and Member, Board of Accountancy  
Jim Boldt, Boldt/Thatcher, Public and Governmental Affairs  
James Coates, Washington Society of CPAs  
Mark D. Cruzan, Partner, Ernst & Young LLP-Seattle Office  
Victoria Galinato, Filipino American Association of CPAs  
Dr. Norman Gierlasinski, Central Washington State University  
Jim Hudspeth, Washington Association of Accountants  
Lauren Jassny, The Commerce Bank  
James King, Public Affairs Consulting  
Robert Loe, Member, Board's Quality Assurance Review Committee  
Gerald Miller, Washington Association of Accountants  
Robert S. Nakahara, State Investment Board  
Sharron O'Donnell, Member, Board of Accountancy and Member, Board's Qualifications Committee  
J. Newton Rumble  
Gary Smith, Independent Business Association  
Michael Sweeney, Washington Society of CPAs  
Dick Thompson, Thompson & Associates, CPA's  
Carl Warren, Washington Society of Enrolled Agents  
Marcy Yates, Association of Governmental Accountants  
Dana M. McInturff, Executive Director, Board of Accountancy  
Mel Curtiss, Director of Investigations and Legislative Liaison, Board of Accountancy

## **Appendix B - Issues as Presented to the Advisory Council**

The following pages contain copies of the issues as originally presented to the Advisory Council. The issues are presented in order of priority as presented on Page 6 of this report.



# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** James W. Caley, CPA, Chair and Dana M. McInturff, CPA, Executive Director, Washington State Board of Accountancy

**Phone Number/E-Mail Address:** 360-695-0065/jcaley@caleycpas.com and 360-586-0163/danam@cpaboard.wa.gov

**Organization (If Applicable):** Washington State Board of Accountancy

**Issue Title or Short Description for Ease of Reference:**

Sanctioning Authority Over (1) Imposters and (2) Individuals Cheating on the CPA Exam

**RCW 18.04 Reference (If Applicable):** RCW 18.04.295

**Description of Implementation Issue:**

(1) Each year a substantial portion of the Board's investigation and enforcement activities deal with imposters. Regulatory agencies nationwide site imposters as their number one enforcement issue; and, an issue that is on the rise. The Washington Board of Accountancy has experienced a similar trend: In 1999 13% of the Board's investigations involved allegations of non-CPA's using the CPA title; in 2000 such activity rose to 18%; and elevated again in 2001 to where investigations of imposters amounted to 25%, or a full 1/4 of the Board's investigations. Under current statute the Board's authority over imposters is limited to:

- (a) entering into a stipulation where the imposter assures the Board that they will discontinue the violation,
- (b) Referring the case to the local prosecutor, or
- (c) Filing an injunction with the courts.

The Board has little leverage to negotiate a stipulation: local prosecutors have higher priority cases and filing an injunction is extremely costly for the Board. Additionally, the Board's activities to handle complaint intake, investigation, and enforcement of the statutory prohibitions against nonCPAs using the title "CPA" or "CPA-Inactive" are costly. None of the current statutory alternatives provide the Board the authority to fine or impose legal and investigative costs on non-CPAs found guilty of using the title "CPA" or "CPA-Inactive." This limitation:

- inhibits the Board's ability to effectively enforce the Act and
- forces CPAs to cover the cost of enforcement actions against imposters.

(2) The CPA examination is included in the group of professional exams deemed by regulators as 'high-stakes' exams. This means examination information, specifically examination questions and answers, are extremely attractive and can be traded for a high value. In recent years allegations of wide-spread, international-level cheating on the CPA examination have arisen creating an even broader concern for protecting the integrity of the CPA examination. The costs to the Board to investigate allegations of cheating can be substantial. Under

the current statute the Board does not have the authority to fine or impose legal and investigative costs on those individuals found guilty of cheating on the CPA examination. This limitation seriously mitigates the Board's ability to effectively sanction cheaters and minimizes any legal deterrents to cheating on the CPA examination. It also forces CPAs to cover the cost of enforcement actions against exam cheaters rather than imposes such costs on those individuals found guilty of cheating.

**Suggested Corrective Language:**

**CURRENT LANGUAGE:**

RCW 18.04.295 Actions against CPA license.

The board shall have the power to: Revoke, suspend, refuse to renew, or reinstate a license or certificate; impose a fine in an amount not to exceed ten thousand dollars plus the board's investigative and legal costs in bringing charges against a certified public accountant, a certificate holder, a licensee, a licensed firm, or a nonlicensee holding an ownership interest in a licensed firm; may impose full restitution to injured parties; may impose conditions precedent to renewal of a certificate or a license; or may prohibit a nonlicensee from holding an ownership interest in a licensed firm, for any of the following causes:

**SUGGESTED LANGUAGE:**

RCW 18.04.295 [DELETE: Actions against CPA license.] [ADD: Actions against CPAs, CPA firms, Nonlicensee Owners, Applicants, and Individuals Violating RCW 18.04.345]

The board shall have the power to: Revoke, suspend, refuse to [ADD: issue or] renew, or reinstate a license or certificate; impose a fine in an amount not to exceed ten thousand dollars plus the board's investigative and legal costs in bringing charges against a certified public accountant, a certificate holder, a licensee, a licensed firm, [ADD: an applicant, a non-CPA violating the provisions of RCW 18.04.345,] or a nonlicensee holding an ownership interest in a licensed firm; may impose full restitution to injured parties; may impose conditions precedent to renewal of a certificate or a license; or may prohibit a nonlicensee from holding an ownership interest in a licensed firm, for any of the following causes:

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

A positive impact on public protection and integrity of financial information is anticipated. Expanding the Board's ability to fine and impose legal and investigative cost recovery on individuals found guilty of cheating on the CPA examination and individuals found guilty of violating the provision of RCW 18.04.345 will strengthen the Board's enforcement authority in areas where violations are anticipated and the public harm is severe.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

1. A positive impact on the regulated group is anticipated. The cost of investigations of exam cheating and imposters will be shared by those individuals found guilty of the violation and not solely born by the regulated group.
2. The enforcement impact of the suggested language is limited to those individual's found guilty of violating the Public Accountancy Act after receiving full due process under the Administrative Procedures Act.

# **Washington State Board of Accountancy**

## **Advisory Council**

### **Public Accountancy Act Implementation Issue (Template)**

**Name of Individual Submitting the Issue:** Gary Smith/Jim King

**Phone Number/E-Mail Address:** (425)453-8621 ibawa@isomedia.com/(360)754-6800 jimkingjr@yahoo.com

**Organization (If Applicable):** Independent Business Association/People for Integrity in Public Accounting

**Issue Title or Short Description for Ease of Reference:**

Independence: Assuring Reliability of CPA Attest Services/Adequacy of Provisions for Auditor Independence

**RCW 18.04 Reference (If Applicable):** RCW 18.04.295, RCW 18.04.345, WAC 4-25-522

**Description of Implementation Issue:**

There is a need to examine the adequacy of the provisions for auditor independence, to assure the reliability of CPA attest services. The Enron/Arthur Anderson issue, and related disclosures in recent months, has caused concern among small business owners and others about the reliability of financial information. Those who invest their earnings, profit, and retirement funds in stocks and other investment instruments, including small business owners, depend upon the reliability of information attested to by the public accounting profession. They believe state law should ensure, to the greatest extent possible, objectivity and reliability of financial reports, and eliminate any actual or appearance of conflict of interest by those attesting to the accuracy of financial statements. The greatest concerns are created by the conflict created by the comingling of attest and consulting functions and there is a substantial need to address this conflict through appropriate changes in law and rule, restricting consulting where it can create a real or perceived conflict of interest. Beyond that, there is a need for a proactive review to find any other possible area of conflict that could endanger actual or perceived auditor independence.

**Suggested Corrective Language:**

To be developed by stakeholdering process.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

CPA's are the sole individuals given the authority by state law to perform attest services. With that authority comes a responsibility to assure reliability. Reliability can only be assured if the CPA is truly independent and objective in performing the attest services. Addressing this issue in a sufficient manner, whatever language is finally adopted, in a manner that will be easily apparent and understood by the general public, is necessary for the restoration of public confidence

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

Action on this issue protects the integrity of the profession and the value of the license, even if corrective actions could lessen opportunities for fees and lessen profits.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

Protects the integrity of the profession and the value of the license.

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** James W. Caley, CPA, Chair, and Dana M. McInturff, CPA, Executive Director, Washington State Board of Accountancy

**Phone Number/E-Mail Address:** 360-695-0065/jcaley@caleycpas.com and 360-586-0163/danam@cpaboard.wa.gov

**Organization (If Applicable):** Washington State Board of Accountancy

**Issue Title or Short Description for Ease of Reference:**

Extend Grace Period to Allow Certificateholder to Utilize Experience without Limitation

**RCW 18.04 Reference (If Applicable):** RCW 18.04.105

**Description of Implementation Issue:**

On July 1, 2001 the Board regulated approximately 8,000 certificateholders (CPAs working for government and industry who have not met the experience requirement) and approximately 6,000 licensees (CPAs who have met the experience requirement and have a license to offer professional services to the practice).

The new Act seeks to eliminate the certificateholder class of licensure by (1) allowing the Board to issue licenses only and (2) requiring certificateholders to begin using the title CPA-Inactive at the end of their current renewal cycle (June 30, 2003 or June 30, 2004). To encourage certificateholders to transition to a licensee status, the new Act allows certificateholders applying for a license by June 30, 2004, to use experience obtained at any time during their career. (New applicants are limited to experience obtained in the 8 years prior to their application for a license.)

Many certificateholders maintain they were completely unaware of the changes in the Act and express frustration at being provided so little time to make the transition to licensee. It is suggested that statute be changed to extend the grace period for certificateholders to use experience without regard to the 8 year limitation until June 30, 2007.

**Suggested Corrective Language:**

CORRECTED LANGUAGE:

RCW 18.04.105 Issuance of license-Requirements-Examination-Fees-Certified public accountants' account-Valid certificates previously issued under chapter-Continuing professional education-Inactive certificates.

...

(4) Persons who on June 30, 2001, held valid certificates previously issued under this chapter shall be deemed to be certificate holders, subject to the following:

(a) Certificate holders may, prior to June 30, [DELETE: 2004] [ADD: 2007], petition the board to become licensees by documenting to the board that they have gained one year of experience through the use of accounting, issuing reports on financial statements, management advisory, financial advisory, tax, tax advisory, or consulting skills, without regard to the eight-year limitation set forth in (b) of this subsection, while employed in government, industry, academia, or public practice.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

Minimal impact on public protection is anticipated in that extending the time period for certificateholders to use past experience to convert to licensee status would not appear to create major public protection issues.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

The suggested corrective language will impact certificateholders only. We anticipate a positive response/impact.

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

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**Phone Number/E-Mail Address:** 360-695-0065/jcaley@caleycpas.com and 360-586-0163/danam@cpaboard.wa.gov

**Organization (If Applicable):** Washington State Board of Accountancy

#### Issue Title or Short Description for Ease of Reference:

Establishing a Penalty for an Individual Using the CPA Title when their License or Certificate was Suspended or Revoked by the Board

**RCW 18.04 Reference (If Applicable):** RCW 18.04.370

#### Description of Implementation Issue:

An individual who had their CPA license or certificate suspended or revoked by the Board has received the most severe board sanction. However, these individuals have been known to recirculate themselves within their community or change communities and advertise themselves as CPAs. Since at one time they held a valid license or certificate it is not too difficult for these individuals to imposter as a CPA.

Because their license or certificate is suspended or revoked, any possible action by the Board is negligible when considering the extent of the violation (practicing with a revoked or suspended license). The Board can file an injunction with courts or refer the matter to the local prosecutor. However, filing an injunction is very costly as far as legal resources and, in most cases, a CPA imposter receives a very low priority from local prosecutors.

#### Suggested Corrective Language:

CURRENT LANGUAGE:

RCW 18.04.370 Penalty.

(1) Any person who violates any provision of this chapter, shall be guilty of a crime, as follows:

(a) Any person who violates any provision of this chapter is guilty of a misdemeanor, and upon conviction thereof, shall be subject to a fine of not more than ten thousand dollars, or to imprisonment for not more than six months, or to both such fine and imprisonment.

(b) Notwithstanding (a) of this subsection, any person who uses a professional title intended to deceive the public, in violation of RCW 18.04.345, having previously entered into a stipulated agreement and order of

assurance with the board, is guilty of a felony, and upon conviction thereof, is subject to a fine of not more than ten thousand dollars, or to imprisonment for not more than two years, or to both such fine and imprisonment.

**SUGGESTED LANGUAGE:**

RCW 18.04.370 Penalty.

(1) Any person who violates any provision of this chapter, shall be guilty of a crime, as follows:

(a) Any person who violates any provision of this chapter is guilty of a misdemeanor, and upon conviction thereof, shall be subject to a fine of not more than ten thousand dollars, or to imprisonment for not more than six months, or to both such fine and imprisonment.

(b) Notwithstanding (a) of this subsection, any person who uses a professional title intended to deceive the public, in violation of RCW 18.04.345, having previously entered into a stipulated agreement and order of assurance with the board, is guilty of a felony, and upon conviction thereof, is subject to a fine of not more than ten thousand dollars, or to imprisonment for not more than two years, or to both such fine and imprisonment.

[ADD: (c) Notwithstanding (a) of this subsection, any person whose license or certificate was suspended or revoked by the Board and who uses the CPA title intended to deceive the public, in violation of RCW 18.04.345, is guilty of a felony, and upon conviction thereof, is subject to a fine of not more than ten thousand dollars, or to imprisonment for not more than two years, or to both such fine and imprisonment.]

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

It is anticipated that the suggested corrective language will fortify public protection by establishing a severe penalty for violation of the Act by individuals whose license or certificate was revoked.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

It is anticipated that the impact on the regulated group as a whole will be nil. [Currently the Board has suspended or revoked 70+ licenses/certificates.]



# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** James W. Caley, CPA, Chair and Dana M. McInturff, CPA, Executive Director, Washington State Board of Accountancy

**Phone Number/E-Mail Address:** 360-695-0065/jcaley@caleycpas.com and 360-586-0163/danam@cpaboard.wa.gov

**Organization (If Applicable):** Washington State Board of Accountancy

**Issue Title or Short Description for Ease of Reference:**

Self Reporting of Enforcement Action

**RCW 18.04 Reference (If Applicable):** RCW 18.04.215 and 18.04.195(6)

**Description of Implementation Issue:**

Currently the news media is the Board's only means for identifying individuals and firms sanctioned by federal regulators (for example: the SEC, IRS, HUD), other state boards of accountancy, or other regulatory agencies. Suspension or revocation of licenses or practice rights and federal or state sanctions related to the practice of public accountancy or the integrity of financial information are key indicators of possible technical or ethical violations of a level meriting Board inquiry.

**Suggested Corrective Language:**

ADD THE FOLLOWING SUBSECTION TO 18.04.215:

- (9) Individuals licensed or registered under RCW 18.04.215 must notify the Board within 30 days of:
- (a) sanction, suspension, revocation, or modification of their license or practice rights by the SEC, IRS, or a state board of accountancy,
  - (b) sanction or order by any federal or state agency related to the practice of public accounting or ethical or technical standards established by board rule.

ADD THE FOLLOWING TO 18.04.195:

- (6) Firms must notify the Board within 30 days of:
- (a) sanction, suspension, revocation, or modification of their license or practice rights by the SEC, IRS, or a state board of accountancy,
  - (b) sanction or order by any federal or state agency related to the practice of public accounting or ethical or technical standards established by board rule.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

A positive impact is anticipated. By implementing a self-notification requirement, the Board will be able undertake enforcement or other corrective action to ensure CPAs practicing in Washington state meet the requirements of the Public Accountancy Act. Additionally, provision of this information will allow the Board to focus its investigative attention on those CPAs and firms where there is a strong indication of ethical or technical violations.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

It is anticipated that only a very small number of CPAs or firms will be impacted by this requirement. And, fulfilling the notification requirement should entail only minimal postage and resource cost.

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** James W. Caley, CPA, Chair and Dana M. McInturff, CPA, Executive Director, Washington State Board of Accountancy

**Phone Number/E-Mail Address:** 360-695-0065/jcaley@caleycpas.com and 360-586-0163/danam@cpaboard.wa.gov

**Organization (If Applicable):** Washington State Board of Accountancy

**Issue Title or Short Description for Ease of Reference:**

Records retention requirement for documentation required by professional standards.

**RCW 18.04 Reference (If Applicable):** RCW 18.04.390 (4)

**Description of Implementation Issue:**

Current statute, RCW 18.04.390(4) states: "Nothing in this section shall require a licensee to keep any workpaper or electronic document beyond the period prescribed in any other applicable statute." This provision implies records retention to demonstrate compliance with professional standards is not relevant for the purposes of this Act. In order to adequately review the work of practitioners and in order for practitioners to fully respond to inquiries from federal and state agencies, sound record retention requirements should be established in Washington State law.

**Suggested Corrective Language:**

**CURRENT LANGUAGE:**

(4) Nothing in this section shall require a licensee to keep any workpaper or electronic document beyond the period prescribed in any other applicable statute.

**SUGGEST LANGUAGE** - Modeled after records retention rules recently implemented by the Texas State Board of Accountancy:

(4) [ADD: Documentation or working papers required by professional standards for audit, review, compilation and other attestation services shall be maintained in paper or electronic format by a licensee and a licensed firm for a period of not less than four years from the date of any report issued in connection with the service. Failure to maintain such documentation or working papers may be deemed to constitute an admission that they do not comply with professional standards. Other than this four year record retention requirement,] nothing in this section shall require a licensee to keep any workpaper or electronic document beyond the period prescribed in any other applicable statute.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

.It is anticipated that the public interest will be served through ensuring records retention supporting the performance of standards prescribed by both the Act and Rules, and ensuring the availability of those records demonstrating a licensee's compliance with professional standards.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

Licensees and firms maintain documents for variable time periods. It is anticipated that the suggested four year retention period will not be too onerous, and, may be less onerous than many firms current quality control standards. It is also anticipated that the standards established by Texas (4 year record retention period) will become a standard established by most boards of accountancy.

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** James W. Caley, CPA, Chair and Dana M. McInturff, CPA, Executive Director, Washington State Board of Accountancy

**Phone Number/E-Mail Address:** 360-695-0065/jcaley@caleycpas.com and 360-586-0163/danam@cpaboard.wa.gov

**Organization (If Applicable):** Washington State Board of Accountancy

**Issue Title or Short Description for Ease of Reference:**

Notifying the Board of Changes in Firm Ownership

**RCW 18.04 Reference (If Applicable):** RCW 18.04.195 (5) and (6)

**Description of Implementation Issue:**

Statutory provisions RCW 18.04.195(5) and (6) establish notification requirements and are inconsistent. Subsection (5) allows firms 90 days to provide notice to the board of changes in ownership; subsection (6) allows firms 30 days to provide notification of changes in firm ownership or personnel.

A quarterly review of firm ownership would allow firms to respond to a 90 day notification requirement. 90 days appears reasonable.

**Suggested Corrective Language:**

**CURRENT LANGUAGE:**

(6) Licensed firms which fall out of compliance with the provisions of this section due to changes in firm ownership or personnel, after receiving or renewing a license, shall notify the board in writing within thirty days of its falling out of compliance and propose a time period in which they will come back into compliance. The board may grant a reasonable period of time for a firm to be in compliance with the provisions of this section.

**SUGGESTED LANGUAGE:**

(6) Licensed firms which fall out of compliance with the provisions of this section due to changes in firm ownership or personnel, after receiving or renewing a license, shall notify the board in writing within [DELETE: thirty] [ADD: ninety days] of its falling out of compliance and propose a time period in which they will come back into compliance. The board may grant a reasonable period of time for a firm to be in compliance with the provisions of this section.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

A positive impact is anticipated. Clarity in reporting requirements means the law is easier to understand. Ease in understanding supports compliance. And, although a firm may be temporarily out of alignment with statutory firm ownership requirements, "falling out of compliance" for a minimal period of time is currently allowed under the law. It is not anticipated that integrity of financial information will be negatively impacted by such temporary non-compliance with ownership requirements.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

A positive impact is anticipated in that reporting requirements will be simplified.

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** James L. King, Jr.

**Phone Number/E-Mail Address:** (360)754-6800/jimkingjr@yahoo.com

**Organization (If Applicable):** People for Integrity in Public Accounting

**Issue Title or Short Description for Ease of Reference:**

Adequacy of ethical and legal standards

**RCW 18.04 Reference (If Applicable):**

**Description of Implementation Issue:**

Adequacy of current ethical and legal standards, and teaching and enunciation of same, in light of a pattern of significant apparent failures of portions of the accounting profession to protect the general public and investor interest- The public believes that, at least within certain strata and sectors of the accounting profession, basic and historic tenets have been abandoned, and laws designed to protect the public and investors have become instead a means to manipulate the public and investors.

**Suggested Corrective Language:**

Again, I am going to leave this open for discussion, but the profession needs to review its commitment to historic standards that served both the profession and the public interest well for many decades.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

Would depend on the action taken.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

Would depend on the action taken.

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** James L. King, Jr.

**Phone Number/E-Mail Address:** (360)754-6800/jimkingjr@yahoo.com

**Organization (If Applicable):** People for Integrity in Public Accounting

**Issue Title or Short Description for Ease of Reference:**

Adequacy of peer review and discipline

**RCW 18.04 Reference (If Applicable):**

**Description of Implementation Issue:**

Adequacy of current methods of peer review and discipline, both in terms of effective maintenance of ethical standards and competency, and in terms of public perception of the same- The public has noted that Arthur Andersen had just gone through the peer review process, and has noted that there is a disturbing pattern of apparent audit failures in many companies now undergoing scrutiny. The public is not comfortable with a process that appears to have little outside involvement, and that might be thought of as too inbred.

**Suggested Corrective Language:**

Again, I am going to leave this open for discussion. I am not sure anyone is sure of an answer, but this area must be addressed in a public confidence building manner.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

Would depend on the action taken.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

Would depend on the action taken.



# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** Dana M. McInturff, CPA, Executive Director, Board of Accountancy

**Phone Number/E-Mail Address:** 360-586-0163

**Organization (If Applicable):** Board of Accountancy

**Issue Title or Short Description for Ease of Reference:**

Board Member Term Limit

**RCW 18.04 Reference (If Applicable):** 18.04.045

**Description of Implementation Issue:**

Current statute limits board members to serving two 3-year terms. Given (1) the complexity of the Public Accountancy Act, other state law governing board activity, and the number and scope of national-level issues impacting the regulation of accountancy in Washington state, and (2) the fact that board members serve on a part-time basis (5 meetings a year), it takes several years for a member to gain an in-depth understanding of the broad scope of board activities and issues. Board members are most effective once they have gained a mature and in-depth understanding of these laws and issue. And, given a six year limitation on board service, board members are too limited to maximize the benefits of their knowledge. In many cases board members are no longer able to serve at that point in time when they have just become most effective.

**Suggested Corrective Language:**

RCW 18.04.035 Board of Accountancy - Members - Terms - Vacancies -Removal.

(1) There is created a board of accountancy for the state of Washington to be known as the Washington state board of accountancy. Effective June 30, 2001, the board shall consist of nine members appointed by the governor. Members of the board shall include six persons who have been licensed in this state continuously for the previous ten years. Three members shall be public members qualified to judge whether the qualifications, activities, and professional practice of those regulated under this chapter conform with standards to protect the public interest, including one public member qualified to represent the interests of clients of individuals and firms licensed under this chapter.

(2) The members of the board shall be appointed by the governor to a term of three years. Vacancies occurring during a term shall be filled by appointment for the unexpired term. Upon the expiration of a member's term of office, the member shall continue to serve until a successor has been appointed and has

assumed office. The governor shall remove from the board any member whose license to practice has been revoked or suspended and may, after hearing, remove any member of the board for neglect of duty or other just cause. [DELETE: No person who has served two successive complete terms is eligible for reappointment. Appointment to fill an unexpired term is not considered a complete term.] In order to stagger their terms, of the two new appointments made to the board upon June 11, 1992, the first appointed member shall serve a term of two years initially.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

It is anticipated the effectiveness of the board will be optimized by this change in that overall board members will be able to spend more time focused on specific board duties and less less time developing an understanding of the Public Accountancy Act, board rules, policies, procedures, forms, the administrative procedures act, state public disclosure laws, rule making laws, other state laws and regulations, and national issues impacting Washington's regulation of the profession.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

It is anticipated that the regulated group will benefit in that the board will optimize its expertise and knowledge to focus its leadership.

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** Dick Thompson

**Phone Number/E-Mail Address:** (360) 694-3886/dick@thompsoncpa.com

**Organization (If Applicable):** Thompson & Associates, CPA's

**Issue Title or Short Description for Ease of Reference:**

Reciprocity

**RCW 18.04 Reference (If Applicable):** RCW 18.04.180

**Description of Implementation Issue:**

RCW 18.04.180 (d) provides that a reciprocity applicant "has" passed the examination required for issuance of his or her certificate or license with grades that would have been passing grades at that time that would have been passing in this state, AND

meets all current requirements in this state for issuance of a license at the time application is made, OR

at the time of issuance of the applicant's license in the other state, met all the requirements then applicable in this state; OR

has had five years of experience within the ten years immediately preceding application in the practice of public accountancy that meets the requirements prescribed by the Board."

Paragraph 2 also indicates that the Board may accept NASBA's designation of the applicant as substantially equivalent to national standards.

Currently 42 jurisdictions have been found by the NASBA to have licensure requirements that are "substantially equivalent". Of those remaining most have simply not fully phased in the 150 hour.

There is currently a local and national shortage of experienced qualified staff. An applicant with 3 years of practical experience within the 5 years immediately preceding their application or 5 years of practical experience within the last 10, as a licensee in another state or employee of a licensee, who has performed public accounting services is easily as qualified as an applicant that has taken an extra 30 hours of classroom work in any subject area they choose.

**Suggested Corrective Language:**

RCW 18.04.180 Paragraph (1) Section (d) should read "...in this state or has 3 years of experience within the 5 years immediately preceding application or 5 years within the last 10 years immediately preceding application in the practice of public accounting that meets the requirements prescribed by the Board. Performed public accounting service shall include public accounting as defined in RCW 18.04.025 for qualifying work experience under the supervision of a licensee of this or another state.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

This provision helps provide an additional source qualified, experienced personnel who have been caught in implementation timing issues among National jurisdictions. The greater the supply of experienced personnel, a better quality of service can be provided to the citizens of Washington.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

None

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** Dick Thompson

**Phone Number/E-Mail Address:** (306) 694-3886/dick@thompsoncpa.com

**Organization (If Applicable):** Thompson & Associates, CPA's

**Issue Title or Short Description for Ease of Reference:**

Fines For Licensed Firms

**RCW 18.04 Reference (If Applicable):** 18.04.295 and 18.04.305

**Description of Implementation Issue:**

RCW 18.04.295 Allows the State Board to impose fines upon firms in an amount not to exceed \$10,000. In today's economic situation this is not a substantial amount of money for many firms to serve as effective penalties. RCW 18.04.295 and RCW 18.04.305 do not provide for fines for gross negligence in the practice of public accounting on the part of any individuals or firms outlined in those RCW's.

**Suggested Corrective Language:**

Provide for more substantial fines against firms (example \$100,000) and move the firm fines section to RCW 18.04.305, if necessary.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

Larger potential fines against firms and provision for fines for gross negligence in the practice of public accounting (including the application of generally accepted accounting principles in attest financial statements) will provide greater incentive for care in the practice of public accounting and the integrity of financial information.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

No additional costs or changes should be required for those individuals or groups currently exerting due care and diligence in the performance of their public accounting services.

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** Jim King/Dick Thompson

**Phone Number/E-Mail Address:** (360)754-6800 jimkingjr@yahoo.com/(360)694-3886

**Organization (If Applicable):** People for Integrity in Public Accounting/Thompson & Associates, CPA's

**Issue Title or Short Description for Ease of Reference:**

Non-CPA Ownership

**RCW 18.04 Reference (If Applicable):**

**Description of Implementation Issue:**

The non-licensee ownership issues were hotly debated in the 2001 legislative process. Many CPA's statewide opposed this provision. Controversy has continued to build nationally as the result of a number of high profile audit failures blamed, in part, on CPA firms focus on providing consulting services to attest clients. Some large firms have begun to divest themselves of many of their consulting services. As the need for equity ownership by non-CPA consultants was cited by large firms as necessary for their competitive survival and the ability to retain key non-CPA consultants, the changes taking place should also cause a reconsideration of moves taken to facilitate a business model that may soon no longer exist, as federal regulatory agencies and Congress initiate proposals to severely limit consulting services provided to attest clients.

There have been few instances of non-CPA ownership as yet, mostly because the large firms could not implement this change as long as there remained states in which they practice that do not allow non-CPA ownership. Those few examples cited to suggest a small firm need, such as giving a bookkeeper an ownership interest, have not occurred.

This appears to be a significant and high risk issue to the integrity of financial information and public protection. It is currently a high profile public issue. It is appropriate to ask the legislature to reconsider their decision to allow non-CPA ownership as allowed in its present form. If a step back was taken from the current, recently enacted format allowing non-CPA ownership, it would be possible to consider other formats that might allow CPA firms to reward non-CPA employees, without incurring the possible conflicts of interest or loss of public confidence inherent in the current model under current conditions.

**Suggested Corrective Language:**

Suggest that the legislature reconsiders the decision to allow non-CPA ownership as authorized in 2001's E2SSB 5593, and instead adopt some alternative method of providing CPA firms with the means to reward

non-CPA employees. A possible alternative to the provisions to E2SSB 5593 is to allow CPA firms to offer non-voting Employee Stock Ownership Plans (ESOP's) to their active employees, with the total ESOP ownership not to exceed 33% of the firm ownership. A CPA firm's non-CPA staff could potentially then be allowed to share in the benefits of ownership, without having the management control of the firm and without a negative public perception being created.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

Public Protection, Integrity of Financial Information and public confidence in the work regulated by the State Board are of utmost importance. The legislature and the executive branch must be given the opportunity to judge whether reconsideration or modification of the decision to allow non-CPA ownership is, in light of current events, in the best interests of the public.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

Could limit or change the form of ownership now allowed. However, to date there are no non-licensee owners in the State of Washington and no firm would have to undo any ownership change. An alternative form of rewarding non-CPA employees may be more practical and thus more likely to be effective, both in actually being able to reward non-CPA employees, and in avoiding a negative public perception.

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** Robert Loe

**Phone Number/E-Mail Address:** 206-292-1747/robert@loecpa.com

**Organization (If Applicable):** Robert Loe & Associates

**Issue Title or Short Description for Ease of Reference:**

Substance over form re interpretation of professional standards

**RCW 18.04 Reference (If Applicable):** RCW 18.04.055 Board-Rules

#### **Description of Implementation Issue:**

The theoretical support for the use of "special purpose entities" by ENRON-Andersen was based on EITF (superscript 11) which is an extremely arcane branch of GAAP. This was the basis for leaving debt off the ENRON balance sheets. In other words, there was thinly-veiled support for the Enron-Andersen and the EITF is in conflict with GAAP as it is understood by nearly all CPA practitioners and the users of financial statements.

#### **Suggested Corrective Language:**

New section of RCW 18.04.055 (XX) The board shall observe the principle of substance over form when considering or evaluating professional standards, and the application of generally accepted accounting principles.

#### **Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

A new section incorporating the principle of substance over form into the RCW would strengthen the board's ability to deal with professional standards that have weak theoretical support and /or conflict with public policy.

#### **Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

This proposed change should have no impact on members of the group who adhere to professional standards.



## **Washington State Board of Accountancy Advisory Council**

### **Public Accountancy Act Implementation Issue**

**Name of Individual Submitting the Issue:** Newt Rumble

**Phone Number/E-mail Address:** 360-574-0644/newt@vancouvercpa.com

**Organization:** Peterson & Associates, P.S., CPA's

**Issue Title/Short Description:** The “corporate culture” existent within many firms has resulted in large scale failures and chronic inability, across the industry, of firms to manage and police their key engagement personnel. This has resulted in repeated instances of major firm/engagement errors, ethics violations, and conflicts of interest dating back to the early 1980's. And the “sins of the few” are then visited on the profession at large.

#### **RCW 18.04 Reference (If Applicable):**

**Description of Implementation Issue:** While such problems have occurred occasionally in the prior 40 years, the rate of occurrence within the last 20 years has become epidemic. And the size of the errors and/or restitutions has become multiple tens of billions of dollars, in the aggregate. As an industry, we created rules, regulations, and accounting policies at double the rate during the last 20 years as during the previous 50. And then hang tremendous professional and financial incentives on the professionals in our industry for development of avoidance strategies. If financial statements and GAAP have become unwieldy and unreadable, it is our own doing. Very few financial statements currently issued by CPA firms, including SEC and other publicly traded company reports present full and correct reporting and disclosure. Throughout the nation, even the major authors report this fact in their presentations, papers, and writings. Without some significant attention to this problem it will get worse in the present environment of contingent fees, commissions, multidisciplinary firms, and non professional ownership. We have set the stage, nationwide, to increase the size of the population to manage, allowed a complete polarity in professional skill subsets necessary for ownership and/or engagement management; and established this in an environment of chronic understaffing, budget inadequacy, and communication breakdowns between the regulatory entities at the federal, state, and local level.

**Suggested Corrective Action:** Any action, discipline, litigation, regulatory enforcement, filed with the board or to any federal or state regulatory agency and which results in a finding against the firm and/or any employee, member, owner, or partner –, shall cause an investigation of the firm's practices and policies with regard to engagement oversight. This action will take the form of a full compliance peer review comprised of team members appointed by the board of accountancy, and other regulatory agencies (including the attorney general) where appropriate. The review will focus primarily on the firm's management and engagement oversight practices, and a comprehensive review of the engagements supervised by the alleged offender during the last 4 years. The cost of such an engagement will be born by the firm under scrutiny at an average hourly rate established by the Board of Accountancy for such cases.

This action may be avoided by the firm's voluntary disclosure to the Board of Accountancy of the offending act(s)/error(s) prior to agency dispensation; and an agreement to submit a representative sample of the firm's work, including that of the offender, for scrutiny by the Board's QAR committee for the following consecutive 15 months, education and training to remedy the risk of future acts, and disciplinary action taken and recorded by the firm to avoid future occurrences. The cost of these reviews will be born by the firm under scrutiny at an average hourly rate established by the Board of Accountancy for such cases.

Where the offending action falls outside the parameters of attestation matters, the Board's QAR committee may appoint an alternative committee comprised of persons qualified to review the work/engagement(s) in question, under the same cost parameters stated above.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:** Evidence to the public of enhanced self disclosure, industry self regulation, results of the Board's review shall become a matter of public record in the event that the matter comes to litigation, settlement, or disciplinary action against either the firm or its offending personnel.

**Impact of Suggested Corrective Language on the Regulated Group including Potential Licensees, Licensees, and Certificateholders, CPA Firms, Other Individuals and Firms:** Such regulation would place significant incentives upon firms to provide better internal control over engagement matters, and communications with clients. Key recommendations would be signed off by multiple personnel within the firm. Work quality would replace revenue volume as a major force in personnel evaluation, retention, and advancement. Nonlicensees would be highly controlled within engagement management parameters.

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** James L. King, Jr.

**Phone Number/E-Mail Address:** (360)754-6800/jimkingjr@yahoo.com

**Organization (If Applicable):** People for Integrity in Public Accounting

**Issue Title or Short Description for Ease of Reference:**

Adequacy of involvement of outside interests

**RCW 18.04 Reference (If Applicable):**

**Description of Implementation Issue:**

Adequacy of involvement of interests from outside the CPA universe, or the accounting profession as a whole, in the discussion of issues of real impact upon the general public and investor communities- The accounting profession is going to have to be willing to involve outside interests in the discussion of accounting issues. It will no longer be acceptable to treat these issues as belonging to "the club." The profession would benefit by being proactive on this, working to explain possible ramifications, trade-offs, gains and losses from various courses of action. It is the quickest way to regain trust.

**Suggested Corrective Language:**

Again, I am going to leave this open for discussion, but the profession needs to pull back the curtains and not just reveal, but explain, the mysteries. Quite frankly, any accounting method that a reasonably intelligent person cannot follow is probably too "arcane" to be easily allowable. Public knowledge, understanding, and involvement will be critical to the future success of the accounting profession.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

Would depend on the action taken.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

Would depend on the action taken.

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** Dick Thompson

**Phone Number/E-Mail Address:** (360) 694-3886/dick@thompsoncpa.com

**Organization (If Applicable):** Thompson & Associates, CPA's

**Issue Title or Short Description for Ease of Reference:**

Non-Licensee Owner Education Requirement

**RCW 18.04 Reference (If Applicable):** RCW 18.04.195

**Description of Implementation Issue:**

Non-Licensee Owners are not required to possess any minimum educational requirements while licensees are required to possess 150 semester hours of college education, including a baccalaureate or higher degree. Non-licensee owners are required by RCW 18.04.195 (8) to be "an active individual in the licensed firm or affiliated entities".

**Suggested Corrective Language:**

RCW 18.04.195 (8) should have a subsection (e) added which states:  
(e) Required to meet the education requirements for licensees.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

The corrective language insures that "active" non-licensee owners of a CPA firm possess a minimum education consistent with licensees in performing services to the public. The profession has determined that 150 hours is the minimum required to adequately perform services via a CPA firm to the public and the requirements for non-licensee owners should be consistent with that.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

Non-licensee owners would be required to possess minimum educational requirements consistent with licensees.

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** Dick Thompson

**Phone Number/E-Mail Address:** (360) 694-3886

**Organization (If Applicable):** Thompson & Associates, CPA's

**Issue Title or Short Description for Ease of Reference:**

Good Character Requirements

**RCW 18.04 Reference (If Applicable):** 18.04.105(1)(a)

**Description of Implementation Issue:**

The burden of proof falls to the State Board to carry the burden of proof under this provision by a finding of preponderance of evidence that a person lacks good character. An applicant must not show a history of dishonest or felonious acts.

**Suggested Corrective Language:**

A sentence should be added:

Conviction of a felonious act or previous license revocation by a state or national regulatory agency for dishonest acts or substantial negligence shall be considered prima facie evidence of the lack of good character and shall not require the Board find a preponderance of evidence.

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

The public should be protected from felons and applicants with a history of violating regulatory rules of State and Federal agencies. The Board should carry the burden of proof in these circumstances, if it feels the public may be at risk licensing such an individual.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

None

## Washington State Board of Accountancy Advisory Council

### Public Accountancy Act Implementation Issue

**Name of Individual Submitting the Issue:** Newt Rumble

**Phone Number/E-mail Address:** 360-574-0644/newt@vancouvercpa.com

**Organization:** Peterson & Associates, P.S., CPA's

**Issue Title/Short Description:** Signatures on opinions, reports, work product and results should bear the name and signature of the engagement manager and officer/shareholder/partner/member, and their qualifying titles (as well as the firm name and reference) to enhance the investment of the professional in the quality of the work product.

#### **RCW 18.04 Reference (If Applicable):**

**Description of Implementation Issue:** The valuation industry requires the signature and disclosure of the primary parties associated with the preparation of the report to insure that the user has an understanding of the qualifications of the persons responsible for preparing the report. The Washington State Board of Accountancy should require a similar disclosure on the work products, reports, opinions, and letters that are issued by all public accounting firms licensed in the state of Washington. Also, all such reports and product that bear the accountants' and or the firm's signature should indicate that the firm is a firm of Certified Public Accountants, and that the signor is either a licensee or a non licensee. By such disclosure users and recipients of such work products issued by the firm would know that the firm is in compliance with Rule 630 and Rule 631 of the WAC; what qualifications are possessed by those professionals providing oversight and direct supervision on the engagement; and that the firm and its identified professionals are aware of and invested in the quality of the information provided.

**Suggested Corrective Action:** Addition of such language to appropriate sections of the Statute and Rules

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:** Fully informative reports insure that users of CPA services receive what is commonly held to be incumbent in the work products of CPA firms.

**Impact of Suggested Corrective Language on the Regulated Group including Potential Licensees, Licensees, and Certificateholders, CPA Firms, Other Individuals and Firms:** This requirement would create little or no impact on the

providers of services within CPA firms. It requires nothing more than disclosure that the firm providing the information is a CPA firm, discloses the qualifications and credentials of those who provided the management and supervision of the work product, and outlines a responsible party within the firm to whom inquiries can be directed.

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** Dick Thompson

**Phone Number/E-Mail Address:** (360) 694-3886/dick@thompsoncpa.com

**Organization (If Applicable):** Thompson & Associates, CPA's

**Issue Title or Short Description for Ease of Reference:**

Washington Department of Revenue Registration

**RCW 18.04 Reference (If Applicable):** RCW 18.04.195 and RCW 18.04.350

**Description of Implementation Issue:**

The State Board of Accountancy should require proof of registration with the Washington Department of Revenue for all firms applying for firm licensure and for those individuals described in RCW 18.04.350 (2)(a).

**Suggested Corrective Language:**

RCW 18.04.195 should add a subsection under paragraphs 1, 2, 3 and 4 which states "The licensed firm will provide proof of registration with the Washington Department of Revenue."

RCW 18.04.350 (2)(a) should read, in part "However, such individuals shall notify the Board, under such circumstances and in such manner as the Board determines by rule, of their intent to enter the State under this section. The Board shall have the authority to require proof of registration with the Washington Department of Revenue and establish a fee for the practice privilege granted under this section by rule."

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

The corrective language helps insure that firms and out-of-state licensees engaged in the practice of public accounting are properly registered with the Washington Department of Revenue and appropriate Washington State taxes are being paid.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

None.



# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

**Name of Individual Submitting the Issue:** Dick Thompson

**Phone Number/E-Mail Address:** (306) 694-3886/dick@thompsoncpa.com

**Organization (If Applicable):** Thompson & Associates, CPA's

**Issue Title or Short Description for Ease of Reference:**

Simple Majority of Licensed Firms to be Natural Persons

**RCW 18.04 Reference (If Applicable):** 18.04.195

**Description of Implementation Issue:**

RCW 18.04.195 (2) c, (3)a, and (4) say that "a simple majority of the ownership of the licensed firm in terms of financial interests and voting rights of all shareholders or owners shall be held by natural persons who are licensees or holders of a valid license issued under this chapter or by another state that entitles the holder to practice public accounting in this state and is principally employed by the holder to practice public accounting. While RCW 18.04.195 (8) requires nonlicensee owners of licensed firms to be a natural person it does not explicitly require all shareholders or owners to be natural persons.

**Suggested Corrective Language:**

The RCW should contain language in each subsection making it clear that all shareholders or owners of licensed firms to be natural persons as defined in RCW 18.04.025 (19),

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

The corrective language reiterates the intent of recent legislation that all owners of CPA firms shall be "natural persons", instead of entities.

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

None

# **Washington State Board of Accountancy**

## **Advisory Council**

### **Public Accountancy Act Implementation Issue (Template)**

**Name of Individual Submitting the Issue:** James J. Rigos

**Phone Number/E-Mail Address:** 206-624-0716/jim@rigos.net

**Organization (If Applicable):**

**Issue Title or Short Description for Ease of Reference:**

Legislative Restriction on Board disciplinary jurisdiction to create conformity with other West Coast states accountancy enabling statutes

**RCW 18.04 Reference (If Applicable):** RCW 18.04.295 (there may be others)

**Description of Implementation Issue:**

See attached Pages 2-4

**Suggested Corrective Language:**

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

ORIGINAL

May 1, 2002

PUBLIC ACCOUNTING ACT IMPLEMENTATION ISSUE

Name of Person Submitting Issue: James J. Rigos

Phone number/e-mail: 206-624-0716 and jim@rigos.net

Issue Title: Legislative Restriction on Board disciplinary jurisdiction to create conformity with other West Coast states accountancy enabling statutes.

Statute Impacted: RCW 18.04.295 (there may be others)

Description of Implementation Issues: Not sure the limits here. The legislature should advise the board director, board members, board staff, board consultants and investigators, and any attorney general staff assigned to the board and any others involved in the disciplinary process that they must stop the voyaging into Washington CPAs non-accounting personal lives and marriages. The legislative body should dictate that any Board discipline investigation or other procedures of alleged violations must have a nexus to a CPA's public practice of accounting or if the CPA works in industry, business, or government a nexus to accounting functions. The legislature should specifically prohibit the board from any involvement in a CPAs personal, religious, political or family life or other non-accounting activities.

Suggested Corrective Language: Modify RCW 18.04.295 (2) to read "Dishonesty, fraud, or negligence in the practice of public, private, or governmental accounting by a nonlicensee owner holding an ownership interest in a licensed firm, a licensee, or a certificate holder. The intention of the legislature is to restrict the Board of Accountancy from voyaging into personal private matters of CPAs lacking a nexus to accounting and to make the Washington disciplinary jurisdiction consistent with that of every other west coast state board of accountancy."

Impact: Under the current budget, Washington state agencies need to sharpen the focus on current public interest problems. This legislative change will free up Board disciplinary resources to expand the Board's peer review system to include all local and national firms' independence and conflict of interest problems.

Respectfully submitted,



James J. Rigos,  
Attorney at Law, JD, LLM  
Certified Public Accountant

JJR:rrt

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**673.170 Disciplinary actions; grounds.** (1) The Oregon Board of Accountancy may take any of the following disciplinary actions:

- (a) Revoke, suspend or refuse to issue any certificate issued under ORS 673.040 to 673.075.
- (b) Revoke, suspend or refuse to issue any public accountant's license issued under ORS 673.100.
- (c) Revoke, suspend, refuse to renew or refuse to issue any permit described in ORS 673.150.
- (d) Revoke, suspend, refuse to renew or refuse to issue authorization to practice public accountancy in this state under ORS 673.153.
- (e) Censure the holder of any permit described in ORS 673.150 or authorization described in ORS 673.153.
- (f) Revoke, suspend, refuse to renew or refuse to issue any registration issued under ORS 673.160.
- (g) Censure the holder of any registration issued under ORS 673.160.

(2) The board may take any of the actions described in subsection (1) of this section for any one or any combination of the following causes:

- (a) Fraud or deceit in obtaining or applying for:
  - (A) A certificate under ORS 673.040 to 673.075;
  - (B) A public accountant's license under ORS 673.100;
  - (C) A registration under ORS 58.345 or 673.160;
  - (D) A permit under ORS 673.150;
  - (E) Authorization to practice public accountancy in this state under the provisions of ORS 673.153; or
  - (F) Admission to the roster of authorized accountants referred to in ORS 297.670.
- (b) Dishonesty, fraud or gross negligence in the practice of public accountancy.
- (c) Incompetence in the practice of public accountancy. A holder

applicant who passed the examination before December 31, 2001, may provide this evidence at the time of application for licensure provided the applicant applies and qualifies for licensure before January 1, 2006.

(2) An applicant for issuance of the certified public accountant license under the provision of this section shall present satisfactory evidence that the applicant has completed at least 150 semester units of college education including a baccalaureate or higher degree conferred by a college or university, meeting, at a minimum, the standards described in Section 5094, the total educational program to include a minimum of 24 semester units in accounting subjects and 24 semester units in business related subjects. This evidence shall be presented at the time of application for the certified public accountant license.

(c) An applicant for the certified public accountant license shall pass an examination in accounting, auditing, and other subjects the board deems appropriate. An applicant who fails this examination has the right to reexamination. During the time this examination is a written, paper and pencil examination, the applicant shall pass the examination in accordance with the requirements of paragraphs (1) and (2) of this subdivision.

(1) If at a given sitting of the examination an applicant passes two or more subjects, but does not pass all subjects, the applicant shall be given conditional credit for those subjects and the applicant does not need to sit for reexamination in those subjects, provided that:

(A) At that sitting the applicant sat for all subjects for which the applicant does not have credit.

(B) The applicant attained a minimum standardized score of 50 as determined by the board on each subject taken at that sitting.

(2) In order to pass the examination pursuant to the conditional credit described in paragraph (1), the applicant shall pass the remaining subjects within six subsequent consecutive examinations given after the one at which the first subjects were passed.

(A) At each subsequent sitting at which the applicant seeks to pass in any additional subjects, the applicant sits for all subjects for which the applicant does not have credit.

(B) In order to receive credit for passing additional subjects in any subsequent sitting, the applicant attains a minimum standardized score of 50 as determined by the board on the subjects taken at that sitting.

The conditional credit period provided in this section may be extended by the board upon a showing of extraordinary extenuating circumstances that prevented the applicant from retaking the examination during this period.

(d) The applicant shall show, to the satisfaction of the board, that the applicant has had one year of qualifying experience. This experience may include providing any type of service or advice involving the use of accounting, attest, compilation, management advisory, financial advisory, tax, or consulting skills. To be qualifying under this section, experience shall have been performed in accordance with applicable professional standards. Experience in public accounting shall be completed under the supervision or in the employ of a person licensed or otherwise having comparable authority under the laws of any state or country to engage in the practice of public accountancy. Experience in private or governmental accounting or auditing shall be completed under the supervision of an individual licensed by a state to engage in the practice of public accountancy.

5094. (a) In order for education to be qualifying, education shall meet the standards described in subdivision (b) or (c) of this section.

(b) At a minimum, education must be from a university, college, or other institution of learning accredited by a regional institutional accrediting agency included in a list of these agencies published by the United States Secretary of Education under the requirements of the Higher Education Act of 1965 as amended (20 U.S.C. Sec. 1001 and following).

(c) Education from a college, university, or other institution of learning located outside the United States may be qualifying provided it is deemed by the board to be equivalent to education obtained under subdivision (b). The board may require an applicant to submit documentation of his or her education to a credentials evaluation service approved by the board for evaluation and to cause the results of this evaluation to be reported to the board in order to assess educational equivalency.

(d) The board shall adopt regulations specifying the criteria and procedures for approval of credential evaluation services. These regulations shall, at a minimum, require that the credential evaluation service (1) furnish evaluations directly to the board, (2) furnish evaluations written in English, (3) be a member of the American Association of Collegiate Registrars and Admission Officers, the National Association of Foreign Student Affairs, or the National Association of Credential Evaluation Services, (4) be used by accredited colleges and universities, (5) be reevaluated by the board every five years, (6) maintain a complete set of reference materials as specified by the board, (7) base evaluations only upon authentic, original transcripts and degrees and have a written procedure for identifying fraudulent transcripts, (8) include in the evaluation report, for each degree held by the applicant, the equivalent degree offered in the United States, the date the degree was granted, the institution granting the degree, an English translation of the course titles, and the semester unit equivalence for each of the courses, (9) have an appeal procedure for applicants, and (10) furnish the board with information concerning the credential evaluation service that includes biographical information on evaluators and translators, three letters of references from public or private agencies, statistical information on the number of applications processed annually for the past five years, and any additional information the board may require in order to ascertain that the credential evaluation service meets the standards set forth in this subdivision and in any regulations adopted by the board.

5095. (a) To be authorized to sign reports on attest engagements, a licensee shall complete a minimum of 500 hours of experience, satisfactory to the board, in attest services.

(b) To be qualifying under this section, attest experience shall have been performed in accordance with applicable professional standards. Experience in public accounting shall be completed under the supervision or in the employ of a person licensed or otherwise having comparable authority under the laws of any state or country to engage in the practice of public accountancy and provide attest services, and this experience shall be verified. Experience in private or governmental accounting or auditing shall be completed under the supervision of an individual licensed by a state to engage in the practice of public accountancy and perform attest services, and this experience shall be verified. An applicant may be required to present work papers or other evidence substantiating that the applicant has met the requirements of this section and applicable regulations.

(c) An individual who qualified for licensure by meeting the requirements of Section 5083 shall be deemed to have satisfied the requirements of this section.

(d) The board shall adopt regulations to implement this section, including, but not limited to, a procedure for applicants under Section 5092 or Section 5093 to qualify under this section.

#### BUSINESS AND PROFESSIONS CODE ARTICLE 6 - DISCIPLINARY PROCEEDINGS SECTION 5100-5113

5100. After notice and hearing the board may revoke, suspend or refuse to renew any permit or certificate granted under Article 4 (commencing with Section 5070) and Article 5 (commencing with Section 5080), or may censure the holder of that permit or certificate for unprofessional conduct which includes, but is not limited to, one or any combination of the following causes:

(a) Conviction of any crime substantially related to the qualifications, functions and duties of a certified public accountant or a public accountant.

(b) A violation of Section 478, 498, or 499 dealing with false statements or omissions in the application for a license, or in obtaining a certificate as a certified public accountant or in obtaining registration under this chapter or in obtaining a permit to practice public accountancy under this chapter.

(c) Dishonesty, fraud, or gross negligence in the practice of public accountancy or in the performance of the bookkeeping operations described in Section 5052.

# **Washington State Board of Accountancy**

## **Advisory Council**

### **Public Accountancy Act Implementation Issue (Template)**

**Name of Individual Submitting the Issue:** Vern Peterson

**Phone Number/E-Mail Address:** vern@vancouvercpa.com

**Organization (If Applicable):**

**Issue Title or Short Description for Ease of Reference:**

A CPA should not be allowed to receive commissions

**RCW 18.04 Reference (If Applicable):**

**Description of Implementation Issue:**

The receipt of a commission creates a conflict of interest between the CPA and the client. There are some who will not be able to resist the temptation to recommend a product to a client in order to receive a commission, when another course of action may be better for the client.

It is time to stand for what is right. It is not time to listen to every wind that blows. It is easy to be influenced to go down the wrong road.

I have always stood for what I believed was the correct position. I have been warned and threatened, but it has never cost me a dime or my reputation.

**Suggested Corrective Language:**

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**



# **Washington State Board of Accountancy**

## **Advisory Council**

### **Public Accountancy Act Implementation Issue (Template)**

**Name of Individual Submitting the Issue:** Vern Peterson

**Phone Number/E-Mail Address:** vern@vancouvercpa.com

**Organization (If Applicable):**

**Issue Title or Short Description for Ease of Reference:**

The law should ban competitive bidding for audits

**RCW 18.04 Reference (If Applicable):**

**Description of Implementation Issue:**

When the prohibition on competitive bidding on audits disappeared, we started down the road to Enron. We did away with the rule against competitive bidding on audits because of fear that the Federal Trade Commission, or some federal agency, would force us to drop the rule. The Federal Judge in Oregon just ruled that State law takes precedence over Federal in ruling on assisted suicide.

**Suggested Corrective Language:**

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

# Washington State Board of Accountancy

## Advisory Council

### Public Accountancy Act Implementation Issue (Template)

Name of Individual Submitting the Issue: **Jim Hudspeth, CPA**

Phone Number/E-Mail Address: **(253) 857-9147**

Organization (If Applicable): **Jim Hudspeth, CPA**

Issue Title or Short Description for Ease of Reference:

#### **Multi-GAAS**

RCW 18.04 Reference (If Applicable): **Not applicable**

Description of Implementation Issue:

**Formally recognize 3 (three) levels of GAAS (Generally Accepted Auditing Standards)**

Suggested Corrective Language:

#### **Premature**

Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:

**Formally recognize that 1 (one) GAAS is no longer sufficient for our multi-level and robust economy.**

**"Big GAAS" would apply where ownership and management are largely separate (SEC, government, and large non-profits). Big GAAS would of necessity be highly detailed and very formal, with independence requirements substantially in excess of those presently being used.**

**"Little GAAS" would apply where ownership and management are largely not separate (closely held business concerns and small non-profits). Little GAAS would be detailed and formal, however it would recognize the fact that when ownership and management are common, a less formal independence level is necessary than when ownership and management are separated.**

**"Mini GAAS" would apply to very small closely held concerns. Mini GAAS would include a provision that would permit a sole CPA to prepare and provide positive assurance on the statements regardless of independence. This assurance would be based solely on his / her knowledge, experience, and involvement with the account. Formality would be minimal.**



**Essentially, the accountants' report would say that, "I prepared this report from the books and records of XYZ CO in accordance with Mini-GAAS standards as promulgated by the Washington State Board of Accountancy. In my professional opinion it does fairly present ..."**

**This would be a "permissive" standard, not a "required" standard. Its use would be entirely at the discretion of the signing CPA. In practice this standard should be at least as reliable, far more timely, and far less costly than our present audit standard. The use of this standard would place responsibility squarely on the shoulders of the practicing CPA.**

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other Individuals and Firms:**

**Substantial**

# **Washington State Board of Accountancy Advisory Council**

## **Public Accountancy Act Implementation Issue (Template)**

**Name of Individual Submitting the Issue:** Howard Sibelman

**Phone Number/E-Mail Address:** 206 667-0313 / hss@bmrs.com

**Organization (If Applicable):** Bader Martin Ross & Smith P.S.

**Issue Title or Short Description for Ease of Reference:**

**New Experience Affidavit imposes requirements beyond what is required by the law itself.**

**RCW 18.04 Reference (If Applicable):** RCW 18.04.105 d iii

**Description of Implementation Issue:**

**The Board of Accountancy issued WAC 4-25-730 (hereinafter referred to as “the rule”) pursuant to RCW 18.04.105 d iii. The Board of Accountancy also issued an experience affidavit CPA candidates must use to document their experience. The rule lists seven competencies; the affidavit expands the seven competencies into twenty-one “abilities”. The affidavit requires that the candidate have experience in every one of the twenty-one abilities.**

**The implementation issue is that the rule and affidavit impose experience requirements not contained in the legislation, or envisioned by the legislation. In fact, these additional requirements contradict the intent of the legislation.**

**More specifically, The experience affidavit enumerates abilities, that are generally acquired in the attest skill area. This skill area is not even mentioned in the legislation. (see RCW 18.04.105 Section 1 (d)) These are abilities 2.1, 3.1, 4.1, 4.3, 5.1, 5.4 and 6.2. Moreover, the performance of the tasks that lead to these abilities is usually not done by a candidate in his/her first year of experience. Therefore, requiring these abilities of all candidates goes beyond the clear language of RCW 18.04.105 Section 1 (d) and (d)(i) which require one year of experience in**

**a variety of skill areas including tax and tax advisory skills.**

**Suggested Corrective Language:**

**The instructions to Section 2(c) of the experience affidavit should be modified so that other than for Competency 1, the candidate need only meet one ability under each competency.**

**Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information:**

**None. The public and the integrity of financial information, in the final analysis, are not protected by the experience requirement. I say this because the range of services a CPA is licensed to provide is so broad that one or two years of experience does not insure that a CPA is competent to handle any particular engagement. It is the Professional Code of Conduct that causes a CPA to undertake only that which he/she is competent to perform.**

**The affidavit needs to be changed to bring the implementation rules in line with the legislation. As it is written it is being used to undermine the legislation.**

**Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificate-holders, CPA Firms, other Individuals and Firms:**

**The impact will be to allow all candidates whose experience is obtained in any of the skill areas enumerated in the legislation to meet the experience requirement contained in the legislation.**

**Washington State Board of Accountancy  
Advisory Council  
Public Accountancy Act Implementation Issue**

**Name of Individual Submitting the Issue:** Thomas Neill, CPA

**Phone Number/E-mail address:** [Tom@FinneyNeill.com](mailto:Tom@FinneyNeill.com)

**Organization:** Washington Society of CPA's

**Issue Title:** New Definition of the "Practice of Law" (General Rule 24 and 25) may prohibit or restrict existing practices of CPAs, Enrolled Agents or Accountants.

**RCW 18.04 Reference (if applicable):** Not Applicable

**Description of Implementation Issue:** The new definition may leave accounting and tax professionals prohibited from traditional and statutory professional tasks unless the person becomes a member of the Washington Bar (i.e. becomes a lawyer)

**Suggested Corrective Language:** The WSBOA should review the regulatory conflict, and transmit a request for exemption under Rule 24(b)(11)

**Impact of the Suggested Corrective Language:** Maintains the WSBOA's long-standing statutory requirement of regulating the practice of public accounting and resolves the conflict.

Washington State Board of Accountancy  
Advisory Council

Public Accountancy Act Implementation Issue  
(Template)

Name of Individual Submitting the Issue: **Jim Coates**

Phone Number/E-Mail Address: **(360)357-9945**; [jimcoatescpa@attbi.com](mailto:jimcoatescpa@attbi.com)

Organization: **WSCPA**

Issue Title or Short Description for Ease of Reference: **Substantial equivalency implementation issue.**

RCW 18.04 Reference: **RCW 18.04.350**

Description of Implementation Issue: **Present rules state that “Attest services may only be offered or provided in a licensed CPA firm meeting the requirements of WAC 4-25-750.” This is in direct conflict with RCW 18.04.350 which provides that an individual who meets the substantial equivalence requirements “shall have all the privileges of license holders of this state without the need to obtain a license under RCW 18.04.105 or 18.04.195.” RCW 18.04.195 covers the licensing of firms.**

Suggested Corrective Language: **The Board should simply omit the references to performing attest services in this state and let the provisions of RCW 18.04.350 speak for themselves.**

Impact of Suggested Corrective Language on Public Protection and the Integrity of Financial Information: **No negative effect since the practitioner must establish substantially equivalent requirements have been met. A positive effect on interstate commerce as substantial equivalency provisions give Washington companies the option of selecting an out-of-state firm to perform services. The same provisions in other states’ accountancy laws facilitate the ability of Washington firms to compete in those states with minimal red tape. This is in alignment with RCW 18.04.015(2) that seeks to assure that substantial equivalency be attained.**

Impact of the Suggested Corrective Language on the Regulated Group Including Potential Licensees, Licensees and Certificateholders, CPA Firms, other individuals and Firms: **None. This suggestion simply implements the Act as written.**